

Message Text

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ACTION L-03

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R 282221Z JUN 74

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 772

INFO AMEMBASSY BOGOTA

AMEMBASSY CARACAS

AMEMBASSY LA PAZ

AMEMBASSY QUITO

AMEMBASSY SANTIAGO

C O N F I D E N T I A L LIMA 5260

E.O. 11652: GDS

TAGS: EGEN, ECRP, EFIN, CO, VE, BL, EC, CI, PE

SUBJECT: ANDEAN PACT: FOREIGN INVESTMENT REGULATIONS IN CHILE
CERP/EAL

REF: A. STATE 121753; B. LIMA 4769

1. SUMMARY: FOLLOWING ARE IMPRESSIONSGATHERED BY REGIONAL
INTEGRATION OFFICER FROM CONTACTS WITH CHILEAN POLITICAL
AND BUSINESS LEADERS. CHILE APPEARS TO HAVE MADE THE POLITICAL
DECISION NOT TO PREJUDICE ITS ACTIVE PARTICIPATION IN THE
ANDEAN PACT. HOWEVER, IT ALSO WANTS TO REDUCE THE NEGATIVE
EFFECTS OF THE ANDEAN FOREIGN INVESTMENT CODE TO THE VERY
MINIMUM. SUCH MIDDLE COURSE MAY WELL BE IN THE BEST
INTERESTS OF BOTH CHILE AND THE U.S. END SUMMARY.

2. A NEW FOREIGN INVESTMENT LAW IS UNDER CONSIDERATION IN
CHILE. THE LATEST DRAFT REPORTEDLY REFLECTS AN EFFORT TO STAY
WITHIN THE FRAMEWORK OF THE ANDEAN FOREIGN INVESTMENT CODE,
BUT ESTABLISHES THE MOST POSITIVE IMPLEMENTING REGULATIONS
POSSIBLE WITHIN THIS CONSTRAINT. BASED ON AN AMBIGUITY IN
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CHAPTER II OF DECISION 24, FOR EXAMPLE, NEITHER EXISTING NOR

NEW FIRMS WOULD BE SUBJECT TO DIVESTMENT REQUIREMENTS IF THEY DO NOT SEEK ANDEAN PACT MARKETING PRIVILEGES FOR THEIR PRODUCTS.

3. CHILE IS IN A DILEMMA. A LAW THAT WOULD BE IN OPEN CONFLICT WITH DECISION 24 COULD IMPERIL THE ANDEAN PACT. STRICT CONFORMANCE TO DECISION 24, ON THE OTHER HAND, IS CONSIDERED BY RAUL SAEZ AND OTHER CHILEAN LEADERS TO BE CONTRARY TO THE COUNTRY'S ECONOMIC INTERESTS. BOLIVIA AND TO A LESSER EXTENT ECUADOR SEEM TO VIEW THIS DILEMMA IN A SIMILAR MANNER.

4. GIVEN THE FULL ENDORSEMENT WHICH THE VENEZUELAN, PERUVIAN AND COLOMBIAN GOVERNMENTS APPEAR TO BE GIVING TO DECISION 24, SUBSTANTIAL CHANGES IN ITS TEXT WOULD BE DIFFICULT TO NEGOTIATE. JUNTA MEMBERS HAVE EXPRESSED THE OPINION THAT ONLY THE 14 PERCENT PROFIT REMITTANCE LIMITATION IS LIKELY TO UNDERGO LIBERALIZATION.

5. FROM THE U.S. POINT OF VIEW, IT MAY NOT BE AN ADVANTAGE IF CHILE HAD AN OPEN CONFRONTATION WITH ITS INTEGRATION PARTNERS AND THEREBY RISKED ISOLATION. AS LONG AS CHILE'S INTERNAL POLICIES ARE CONDUCIVE TO DESIRABLE FOREIGN INVESTMENT AND TO THE ENCOURAGEMENT OF PRIVATE ENTREPRENEURSHIP, THE CHILEAN EXPERIENCE COULD IN THE FUTURE EXERT A VERY USEFUL DEMONSTRATIVE EFFECT AND BECOME A MODERATING INFLUENCE WITHIN THE ANDEAN COMMON MARKET AREA. FURTHERMORE, THERE MAY BE CERTAIN POLITICAL ADVANTAGES IN COORDINATING U.S. ASSISTANCE TO CHILE AT THE ANDEAN PACT LEVEL. THE DELICATE BALANCE IN U.S. RELATIONS WITH PERU AND VENEZUELA IS A FACTOR TO CONSIDER. FOR THE RECORD, REGIONAL INTEGRATION OFFICER INDICATED TO RAUL SAEZ IN SANTIAGO THAT USG SUPPORT FOR ANDEAN ECONOMIC INTEGRATION IS NOT CONDITIONED ON ANY ANDEAN INTERNAL POLICY MEASURES OR THEIR MODIFICATION.

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